

CITY OF CHARLES CITY
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

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City of Charles City

Officials

(Before January 2006)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James A. Erb	Mayor	Jan 2006
Jerry Joerger	Mayor Pro tem	Jan 2006
Dennis Sanvig*	Council Member	Jan 2006
Dean Andrews	Council Member	Jan 2008
Arvin Tibbits	Council Member	Jan 2008
Andy Cerio	Council Member	Jan 2008
Jody Meyer	City Clerk	Indefinite
Don Lorsung	City Administrator	Indefinite
Ralph Smith	City Attorney	Indefinite

(After January 2006)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James A. Erb	Mayor	Jan 2008
Jerry Joerger	Mayor Pro tem	Jan 2010
Dean Andrews	Council Member	Jan 2008
Arvin Tibbits	Council Member	Jan 2008
Andy Cerio	Council Member	Jan 2008
De Laine Freeseaman	Council Member	Jan 2010
Jody Meyer	City Clerk	Indefinite
Tom Brownlow	City Administrator	Indefinite
Ralph Smith	City Attorney	Indefinite

* Dennis Sanvig resigned in May, Jan Carey appointed.



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Certified Public Accountants

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Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Charles City, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Charles City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Charles City as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated October 24, 2006 on our consideration of the City of Charles City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Charles City's basic financial statements. We previously audited the financial statements for the year ended June 30, 2005 (which is not presented herein) expressed unqualified opinions on those financial statements. Another auditor previously audited the financial statements for the two years ended June 30, 2004 (which are not presented herein) and his reports expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by U. S. Office of Management and Budget (OMB) Circular A-133 Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
October 24, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Charles City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements which follow.

2006 Financial Highlights

- Receipts of the City's governmental activities decreased 21.3% or \$2,345,744 from fiscal 2005 to fiscal 2006. Property tax increased \$267,521. Long-term debt issued in fiscal 2005 and an airport grant received in fiscal 2005 were the main reasons for the decrease.
- Disbursements of the City's governmental activities decreased 28.8% or \$3,317,486 in fiscal 2006 from fiscal 2005. Capital projects completed in fiscal year 2005 accounted for \$2,716,580 of the decrease.
- The City's total cash basis net assets increased 9.4% or \$440,888 from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities increased \$460,765 and the assets of the business type activities decreased \$19,877.

Using this Annual Report

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a State of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the City's Financial Activities

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two (2) kinds of activities:

- Governmental Activities include public safety, public works, culture & recreation, community & economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, water collection, utility improvements and transit & fire extinguisher funds. These activities are financed primarily by user charges.

Of particular interest is the format that is significantly different than a typical Statement of Activities and Net Assets. You will notice that disbursements are listed in the first column with receipts from that particular program reported to the right. The result is a Net (Disbursement)/Receipt. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes and bond proceeds are classified as general revenue even if restricted for a specific purpose.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year's end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and TIF Funds, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine

whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains several Enterprise Funds to provide separate information for the water and sewer funds, waste collection fund, utility improvements and transit & fire extinguisher funds. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

The City's major governmental funds are the General Fund, the Housing Security Deposits & Public Housing Fund, the Tax Increment Financing Fund, the Debt Service Fund and the Capital Projects Fund. All other governmental funds are aggregated in a single column entitled Other Non-major Governmental Funds. Governmental funds are further broken down into the following activities:

Public Safety - This category includes police operations including reserves, emergency management, fire protection, ambulance service, animal control services and miscellaneous protective services.

Public Works - This category includes roads, bridges, and sidewalks, equipment replacement, street lighting, snow removal, street cleaning, airport and other public works.

Health and Social Services - This category includes the Foster Grandparent Program.

Culture and Recreation - This category includes library services, band shell, parks, recreation, swimming pool operations and golf course operations.

Community and Economic Development - This category includes community beautification, and economic development, the housing program, urban renewal, planning and zoning and miscellaneous services.

General Government - This category includes mayor, city council, city administrator, city clerk/finance officer, elections, legal services, city hall, and other general government operations.

Debt Service - This category includes general obligation, urban renewal, TIF and road use tax debt service and loan obligations.

Capital Projects - This category includes park and recreation capital improvements, airport capital improvements, street improvement projects, communications equipment, TIF District improvements, law enforcement grant

programs, Water Plant improvement project and Water Pollution Control Plant improvements

When the City charges customers for the services it provides, these services are generally reported in business-type or proprietary funds. These are self-sufficient funds. The City's major business-type funds are waterworks, utility improvement, water pollution control, sewer improvement and waste collection. This also includes all debt service and capital projects associated specifically with the above listed utilities.

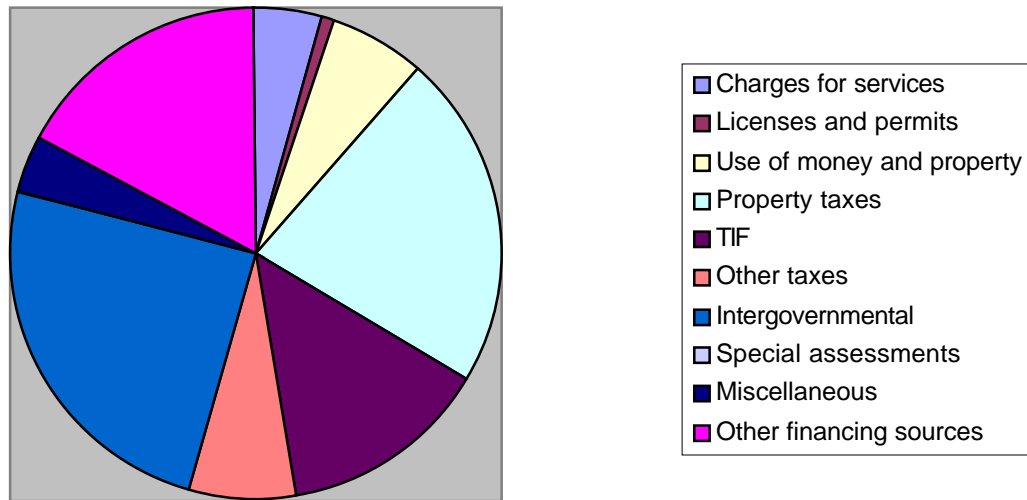
GOVERNMENT – FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$4.822 million to \$5.404 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

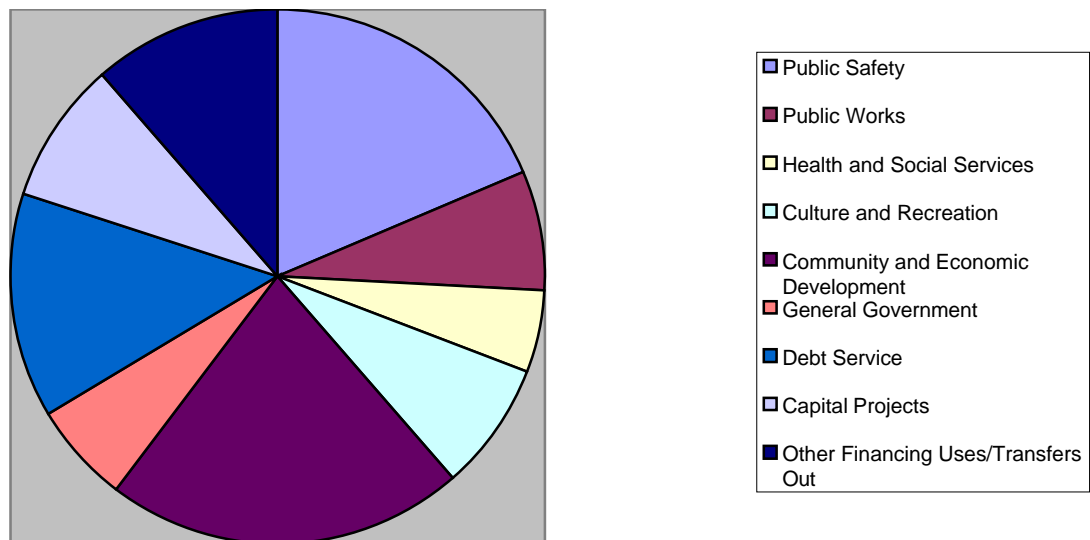
Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)

	Year Ended June 30,	
	<u>2006</u>	<u>2005</u>
Program receipts:		
Charges for service	1,332	1,352
Operating grants, contributions and restricted interest	2,142	2,048
Capital grants, contributions and restricted interest	178	1,926
General receipts:		
Property tax	3,933	3,540
Local option sales tax	517	491
Grants and contributions not restricted to a specific purpose	70	13
Unrestricted interest on investments	185	180
Bond and loan proceeds	20	1,175
Other general receipts	300	299
Transfers, net	(6)	664
Total receipts and transfers	8,671	11,688
Disbursements:		
Public safety	1,785	1,783
Public works	718	419
Health and social services	490	470
Culture and recreation	746	596
Community and economic development	2,180	2,329
General government	595	661
Debt service	693	1,639
Capital projects	883	3,600
Total disbursements	8,090	11,497
Increase in cash basis net assets	581	191
Cash basis net assets beginning of year	4,823	4,632
Cash basis net assets end of year	5,404	4,823

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased 21.3% or \$2,345,744. The total cost of all programs and services decreased \$3,407,058 or 29.7%.

The City increased property tax rates for 2006 by an average of 2.38%. This increase raised the City's property tax receipts \$15,078 in 2006.

The cost of all governmental activities this year was \$8.090 million compared to \$11.497 million last year. However, as shown in the Statement of Activities and Net Assets on pages 12-13, the amount taxpayers ultimately financed for these activities was only \$4.437 million because some of the cost was paid by those directly benefiting from the programs (\$1.333 million) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$2.320 million). Overall, the City's governmental

activities receipts, including intergovernmental aid and fees for service, decreased in 2006 from approximately \$5.326 million to approximately \$3.652 million, principally due to receiving an airport grant in 2005.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

Receipts:	Year ended June 30,	
Program receipts:	<u>2006</u>	<u>2005</u>
Charges for service:		
Water	894	1,607
Sewer improvements	795	-
Waste collection	284	281
Utility improvements	-	2
Transit and fire extinguisher	17	19
Bond proceeds	101	406
Other general receipts	65	59
Total receipts	2,156	2,374
Disbursements and transfers:		
Water	485	1,136
Sewer improvements	798	276
Waste collection	263	256
Utility improvements	553	732
Transit and fire extinguisher	64	55
Transfers	(6)	664
Total disbursements and transfers	2,157	3,119
Change in cash basis net assets	(1)	(745)
Cash basis net assets beginning of year	814	1,559
Cash basis net assets end of year	813	814

Total business type activities receipts for the fiscal year were \$2.156 million compared to \$2.374 million last year. The cash balance decreased by \$226 from the prior year. Total disbursements and transfers for the fiscal year decreased by 30.9% due to projects completed last fiscal year.

Individual Governmental Fund Analysis

As Charles City completed the year, its governmental funds reported a combined fund balance of \$5,252,777, an increase of \$460,765 above last year's total of \$4,792,012. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- The General Fund cash balance increased \$136,555 from the prior year to \$979,909.
- The Housing Security Deposits and Public Housing Fund cash balance increased \$152,804.

- The Tax Increment Financing Funds were established to account for urban renewal projects within the City's TIF Districts. At the end of the fiscal year, the cash balance was \$1,192,050, an increase of \$409,194 from the previous year.
- The Debt Service Fund cash balance increased by \$147,008 to \$63,149 during the fiscal year.

Individual Major Business Type Fund Analysis

- The Water Fund cash balance decreased by \$16,793 to \$121,663, due primarily to a decrease in the sale of water because of Sherman Nursery installing their own wells for irrigation.
- The Sewer Fund cash balance increased by \$46,803 to \$368,492.
- The Waste Collection fund increased by \$3,716 to 0.
- The Utility Improvements Fund decreased by \$44,308 to \$296,350.
- The Transit and Fire Extinguisher Fund decreased by \$1,863 to \$2,149.

Budgetary Highlights

Over the course of the year, the City amended its budget. The amendment was approved on May 15, 2006 and resulted in an increase in budgeted operating revenues of \$505,300 and an increase in budgeted disbursements of \$465,591 due to various projects and additional disbursements in certain City departments.

Debt Administration

At June 30, 2006, the City had approximately \$13,076,000 in bonds and other long-term debt, compared to approximately \$13,672,000 last year, as shown below:

Outstanding Debt at Year-End (Expressed in Thousands)

	June 30, <u>2006</u>	<u>2005</u>
General obligation bonds and notes	7,255	7,703
Revenue bonds	5,319	5,357
Revenue notes	502	612
Total	13,076	13,672

Debt decreased as a result of paying down general obligation bonds. In addition, the City issued urban renewal tax increment financing revenue bonds for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City.

The City continues to carry a general obligation bond rating of A2 assigned by national rating agencies to the City's debt. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to five percent (5%) of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$7,255,000 is significantly below its constitutional debt limit of \$14.5 million.

Economic Factors and Next Year's Budget and Rates

Charles City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees charged for various City activities.

Amounts available for appropriation in the operating budget are \$2.473 million realizing only \$15,078 over the final 2006 budget. The City will use this increase in receipts to finance programs we currently offer and to defray a portion of the costs to carry out major urban renewal projects of the City. Budgeted disbursements are expected to rise by approximately \$2.143 million due to projects completed in the 2007 budget year. Increased wage and cost-of-living adjustments, increases in street construction and maintenance and urban renewal projects represent the largest increases. The City has added no major new programs or initiatives for the 2007 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$240,000 by the close of 2007.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Jody Meyer, City Clerk/Finance Officer at 105 Milwaukee Mall, Charles City, IA 50616, phone (641)257-6300 or email jody@cityofcharlescity.org.

As of and for the year ended June 30, 2006

See notes to financial statements.

Exhibit A

Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
\$ 307,248	\$ 5,251	\$ -	\$ (1,472,648)	\$ -	\$ (1,472,648)
6,065	654,063	-	(57,281)	-	(57,281)
6,106	321,910	178,221	16,447	-	16,447
373,459	17,652	-	(355,119)	-	(355,119)
623,430	1,088,449	-	(468,404)	-	(468,404)
2,279	-	-	(592,607)	-	(592,607)
-	-	-	(692,919)	-	(692,919)
14,000	54,847	-	(814,502)	-	(814,502)
<u>\$ 1,332,587</u>	<u>\$ 2,142,172</u>	<u>\$ 178,221</u>	<u>\$ (4,437,033)</u>	<u>\$ -</u>	<u>\$ (4,437,033)</u>
\$ 894,452	\$ -	\$ -	\$ -	\$ 409,666	\$ 409,666
794,669	-	-	-	(3,050)	(3,050)
283,629	-	-	-	19,960	19,960
-	-	-	-	(552,536)	(552,536)
16,963	-	-	-	(46,836)	(46,836)
<u>\$ 1,989,713</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (172,796)</u>	<u>\$ (172,796)</u>
<u>\$ 3,322,300</u>	<u>\$ 2,142,172</u>	<u>\$ 178,221</u>	<u>\$ (4,437,033)</u>	<u>\$ (172,796)</u>	<u>\$ (4,609,829)</u>
			\$ 2,218,849	\$ 35,121	\$ 2,253,970
			1,409,929	-	1,409,929
			304,196	-	304,196
			517,044	-	517,044
			69,869	-	69,869
			185,156	20,112	205,268
			20,000	110,000	130,000
			-	(8,518)	(8,518)
			299,673	9,649	309,322
			(6,206)	6,206	-
			<u>\$ 5,018,510</u>	<u>\$ 172,570</u>	<u>\$ 5,191,080</u>
			\$ 581,477	\$ (226)	\$ 581,251
			4,822,723	813,530	5,636,253
			<u>\$ 5,404,200</u>	<u>\$ 813,304</u>	<u>\$ 6,217,504</u>
			\$ 469,016	\$ -	\$ 469,016
			1,192,050	-	1,192,050
			63,149	664,842	727,991
			17,482	-	17,482
			3,662,503	148,462	3,810,965
			<u>\$ 5,404,200</u>	<u>\$ 813,304</u>	<u>\$ 6,217,504</u>

City of Charles City
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2006

	General	Special Housing Security Deposits & Public Housing
Receipts:		
Property tax	\$ 1,984,583	\$ -
Tax increment financing collections	-	-
Other city tax	234,266	-
Licenses and permits	80,847	-
Use of money and property	156,495	418,015
Intergovernmental	206,937	73,585
Charges for service	248,107	47,368
Special assessments	-	-
Miscellaneous	122,314	-
Total receipts	<u>\$ 3,033,549</u>	<u>\$ 538,968</u>
Disbursements:		
Operating:		
Public safety	\$ 1,364,821	\$ -
Public works	212,778	-
Health and social services	-	-
Culture and recreation	721,266	-
Community and economic development	231,040	380,164
General government	610,326	-
Debt service	-	-
Capital projects	121,867	-
Total disbursements	<u>\$ 3,262,098</u>	<u>\$ 380,164</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (228,549)</u>	<u>\$ 158,804</u>
Other financing sources (uses):		
Loan proceeds	\$ -	\$ -
Operating transfers in	381,841	-
Operating transfers out	(16,737)	(6,000)
Total other financing sources (uses)	<u>\$ 365,104</u>	<u>\$ (6,000)</u>
Net change in cash balances	<u>\$ 136,555</u>	<u>\$ 152,804</u>
Cash balances beginning of year	<u>843,354</u>	<u>886,589</u>
Cash balances end of year	<u><u>\$ 979,909</u></u>	<u><u>\$ 1,039,393</u></u>
Cash Basis Fund Balances		
Reserved:		
Debt service	\$ -	\$ -
Unreserved:		
General fund	979,909	-
Special revenue funds	-	1,039,393
Capital projects fund	-	-
Permanent fund	-	-
Total cash basis fund balances	<u><u>\$ 979,909</u></u>	<u><u>\$ 1,039,393</u></u>

See notes to financial statements.

Exhibit B

Revenue			Other	
Tax			Nonmajor	
Increment	Debt	Capital	Governmental	
Financing	Service	Projects	Funds	Total
\$ -	\$ 304,196	\$ -	\$ -	\$ 2,288,779
1,409,929	-	-	-	1,409,929
-	-	-	517,044	751,310
-	-	-	-	80,847
28,382	153	2,468	62,018	667,531
23,262	-	26,788	2,247,679	2,578,251
-	-	-	163,806	459,281
-	-	3,633	-	3,633
18,977	2,053	-	274,791	418,135
\$ 1,480,550	\$ 306,402	\$ 32,889	\$ 3,265,338	\$ 8,657,696
\$ -	\$ -	\$ -	\$ 482,085	\$ 1,846,906
-	-	-	524,282	737,060
-	-	-	501,019	501,019
-	-	-	36,193	757,459
476,140	-	-	1,094,343	2,181,687
-	-	-	-	610,326
-	692,919	-	-	692,919
-	-	123,480	638,002	883,349
\$ 476,140	\$ 692,919	\$ 123,480	\$ 3,275,924	\$ 8,210,725
\$ 1,004,410	\$ (386,517)	\$ (90,591)	\$ (10,586)	\$ 446,971
\$ -	\$ 20,000	\$ -	\$ -	\$ 20,000
-	533,525	-	206,428	1,121,794
(595,216)	(20,000)	(116,196)	(373,851)	(1,128,000)
\$ (595,216)	\$ 533,525	\$ (116,196)	\$ (167,423)	\$ 13,794
\$ 409,194	\$ 147,008	\$ (206,787)	\$ (178,009)	\$ 460,765
782,856	(83,859)	388,737	1,974,335	4,792,012
\$ 1,192,050	\$ 63,149	\$ 181,950	\$ 1,796,326	\$ 5,252,777
\$ -	\$ 63,149	\$ -	\$ -	\$ 63,149
-	-	-	-	979,909
1,192,050	-	-	1,778,844	4,010,287
-	-	181,950	-	181,950
-	-	-	17,482	17,482
\$ 1,192,050	\$ 63,149	\$ 181,950	\$ 1,796,326	\$ 5,252,777

City of Charles City

Reconciliation of the Statement of Cash Receipts, Disbursements and Changes
in Cash Balances to the Statement of Activities and Net Assets – Governmental Funds

As of and for the year ended June 30, 2006

Total governmental funds cash balances (page 15)	\$ 5,252,777
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Amounts reported for governmental activities in the Statement of
Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of
partial self funding of the City's health insurance benefit plan to individual
funds. The assets of the Internal Service Fund are included in
governmental activities in the Statement of Net Assets.

151,423

Cash basis net assets of governmental activities (page 13)
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<u>\$ 5,404,200</u>

Net change in cash balances (page 15)

\$ 460,765

Amounts reported for governmental activities in the Statement of
Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of
employee health benefits to individual funds. The change on net assets of
the Internal Service Fund is reported with governmental activities.

120,712

Change in cash balance of governmental activities (page 13)

<u>\$ 581,477</u>

See notes to financial statements.

Exhibit D

City of Charles City

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2006

	Enterprise Funds						Internal Service Fund
	Water	Sewer	Waste Collection	Utility Improvements	Transit & Fire Extng.	Total	Employee Health
Operating receipts:							
Charges for service	\$ 894,452	\$ 794,669	\$ 283,629	\$ -	\$ 16,963	\$ 1,989,713	\$ 689,483
Miscellaneous	-	408	-	945	-	1,353	8,934
Total operating receipts	<u>\$ 894,452</u>	<u>\$ 795,077</u>	<u>\$ 283,629</u>	<u>\$ 945</u>	<u>\$ 16,963</u>	<u>\$ 1,991,066</u>	<u>\$ 698,417</u>
Operating disbursements:							
Business type activities	\$ 491,804	\$ 524,068	\$ 263,669	\$ 185,875	\$ 63,799	\$ 1,529,215	\$ -
Nonprogram	-	-	-	-	-	-	565,057
Total operating disbursements	<u>\$ 491,804</u>	<u>\$ 524,068</u>	<u>\$ 263,669</u>	<u>\$ 185,875</u>	<u>\$ 63,799</u>	<u>\$ 1,529,215</u>	<u>\$ 565,057</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ 402,648</u>	<u>\$ 271,009</u>	<u>\$ 19,960</u>	<u>\$ (184,930)</u>	<u>\$ (46,836)</u>	<u>\$ 461,851</u>	<u>\$ 133,360</u>
Non-operating receipts (disbursements):							
Property tax	\$ -	\$ -	\$ -	\$ -	\$ 35,121	\$ 35,121	\$ -
Intergovernmental	372	-	-	7,924	-	8,296	-
Interest on investments	10,407	9,705	-	-	-	20,112	7,003
Debt service	-	(286,284)	-	(366,661)	-	(652,945)	-
Total non-operating receipts (disbursements)	<u>\$ 10,779</u>	<u>\$ (276,579)</u>	<u>\$ -</u>	<u>\$ (358,737)</u>	<u>\$ 35,121</u>	<u>\$ (589,416)</u>	<u>\$ 7,003</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 413,427</u>	<u>\$ (5,570)</u>	<u>\$ 19,960</u>	<u>\$ (543,667)</u>	<u>\$ (11,715)</u>	<u>\$ (127,565)</u>	<u>\$ 140,363</u>
Other financing sources (uses):							
Bond proceeds	\$ -	\$ 110,000	\$ -	\$ -	\$ -	\$ 110,000	\$ -
Discount and fees	-	(8,518)	-	-	-	(8,518)	-
Operating transfers in	-	40,325	-	539,684	9,852	589,861	-
Operating transfers out	(430,220)	(89,434)	(23,676)	(40,325)	-	(583,655)	-
Total other financings sources (uses)	<u>\$ (430,220)</u>	<u>\$ 52,373</u>	<u>\$ (23,676)</u>	<u>\$ 499,359</u>	<u>\$ 9,852</u>	<u>\$ 107,688</u>	<u>\$ -</u>
Net change in cash balances	<u>\$ (16,793)</u>	<u>\$ 46,803</u>	<u>\$ (3,716)</u>	<u>\$ (44,308)</u>	<u>\$ (1,863)</u>	<u>\$ (19,877)</u>	<u>\$ 140,363</u>
Cash balances beginning of year	<u>138,456</u>	<u>321,689</u>	<u>3,716</u>	<u>340,658</u>	<u>4,012</u>	<u>808,531</u>	<u>35,709</u>
Cash balances end of year	<u><u>\$ 121,663</u></u>	<u><u>\$ 368,492</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 296,350</u></u>	<u><u>\$ 2,149</u></u>	<u><u>\$ 788,654</u></u>	<u><u>\$ 176,072</u></u>
Cash Basis Fund Balances							
Reserved for debt service	\$ -	\$ 368,492	\$ -	\$ 296,350	\$ -	\$ 664,842	\$ -
Unreserved	<u>121,663</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,149</u>	<u>123,812</u>	<u>176,072</u>
Total cash basis fund balances	<u><u>\$ 121,663</u></u>	<u><u>\$ 368,492</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 296,350</u></u>	<u><u>\$ 2,149</u></u>	<u><u>\$ 788,654</u></u>	<u><u>\$ 176,072</u></u>

See notes to financial statements.

City of Charles City

Reconciliation of the Statement of Cash Receipts, Disbursements and Changes
in Cash Balances to the Statement of Activities and Net Assets – Proprietary Funds

As of and for the year ended June 30, 2006

Total enterprise funds cash balances (page 17)	\$ 788,654
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Amounts reported for business type activities in the Statement of Activities
and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial
self funding of the City's health insurance benefit plan to individual funds. The
assets of the Internal Service Fund are included in business type activities in the
Statement of Net Assets.

24,650

Cash basis net assets of business type activities (page 13)	\$ 813,304
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Net change in cash balances (page 17)	\$ (19,877)
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Amounts reported for business type activities in the Statement of Activities
and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial
self funding of the City's health insurance benefit to individual funds. The
change in net assets of the Internal Service Fund is reported with business type
activities.

19,651

Change in cash balance of business type activities (page 13)	\$ (226)
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See notes to financial statements.

City of Charles City
Notes to Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Charles City is a political subdivision of the State of Iowa located in Floyd County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Charles City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Floyd County Assessor's Conference Board, Floyd County Emergency Management Commission, Floyd-Mitchell-Chickasaw County Solid Waste Management Agency, and Floyd County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Housing Security Deposits and Public Housing Fund are used to account for public housing areas partially funded by the Department of Housing and Urban Development.

The Tax Increment Financing Funds are used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for capital projects financed by the City.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Improvements Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Waste Collection Fund is used to account for garbage collection services to the citizens of Charles City.

The Utilities Improvements Fund is used to account for improvements to the City's water utility system.

The Transit and Fire Extinguisher Fund is used to account for the City's public transportation system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City of Charles City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public works and health and social services functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments at June 30, 2006.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes and revenue bonds and notes are as follows:

Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Revenue Bonds		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 358,000	\$ 267,861	\$ 95,732	\$ 14,431	\$ 235,400	\$ 191,231	\$ 29,000	\$ 26,190	\$ 718,132	\$ 499,713
2008	379,000	256,817	94,000	11,789	249,700	184,206	39,000	24,800	761,700	477,612
2009	409,000	244,251	97,000	8,879	262,100	176,256	54,000	22,875	822,100	452,261
2010	740,000	229,967	20,000	5,600	276,300	167,580	59,000	20,135	1,095,300	423,282
2011	735,000	202,219	20,000	4,800	285,700	169,914	74,000	17,080	1,114,700	394,013
2012-2016	3,777,000	567,359	100,000	12,000	1,577,800	626,917	247,000	26,705	5,701,800	1,232,981
2017-2021	430,000	22,555	-	-	1,628,000	317,571	-	-	2,058,000	340,126
2022-2026	-	-	-	-	804,000	50,725	-	-	804,000	50,725
Total	\$ 6,828,000	\$ 1,791,029	\$ 426,732	\$ 57,499	\$ 5,319,000	\$ 1,884,400	\$ 502,000	\$ 137,785	\$ 13,075,732	\$ 3,870,713

The resolutions providing for the issuance of the revenue bonds include the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.

- (c) Additional monthly transfers of 25% of the amount required in the sewer revenue bond sinking account to a revenue reserve account and \$1,000 to the improvement fund account within the Enterprise Funds shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(4) Interfund Loan Agreements

The City has approved various interfund loans from the police retirement, fire retirement and cablevision funds at a 7% annual interest rate as follows:

Lending Fund	Borrowing Fund	Original Loan	Outstanding 06/30/06	Annual Payment	Final Payment
Police Retirement	East Park TIF	\$ 76,617	\$ 46,279	various	01/01/07
Fire Retirement	East Park TIF	36,043	6,286	6,286	06/30/07
Police Retirement	Riverside TIF	100,000	31,101	18,111	06/30/08
Fire Retirement	Riverside TIF	105,000	30,824	20,000	06/01/07
Cablevision	Riverside TIF	50,000	24,979	9,056	06/01/09
Police Retirement	Riverside TIF	50,000	35,816	9,056	06/01/09

(5) County Urban Renewal Bonds

The Southwest Bypass TIF district is located partially within the City limits and partially outside the City limits. The TIF district is jointly governed by a 28E agreement between the City and Floyd County. Per the agreement, the City is responsible for the financial administration of the district. The County issued \$1,335,000 of bonds secured by the TIF revenues of the district. In turn, the County transferred the proceeds to the City to pay the expenses of the current projects. The City, as financial administrator, will receive the TIF revenues from the district and will transfer the funds to the County as the bonds mature. The bond payment schedule is as follows:

Year ending June 30,	General Obligation Bonds	
	Principal	Interest
2007	\$ 80,000	\$ 39,990
2008	80,000	38,070
2009	80,000	35,910
2010	90,000	33,590
2011	90,000	30,800
2012-2016	515,000	106,100
2017-2021	235,000	14,200
Total	\$ 1,170,000	\$ 298,660

During the year ended June 30, 2006, the City was to pay principal and interest of \$55,000 and \$41,145, respectively. In contravention of the governing 28E agreement and bond documents, the County Treasurer withheld the TIF funds from the City and remitted the principal and interest payments to the fiscal agent through the County.

(6) Conduit Debt

From time to time the City has issued Industrial or Health Facility Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds.

As of June 30, 2006, there was one series of Health Facility Refunding Revenue Bonds outstanding, with a principal amount payable of \$2,398,812.

(7) Pension and Retirement Benefits

IPERS – The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$93,181, \$94,663 and \$90,461 respectively, equal to the required contributions for each year.

MFPRSI – The City contributes to the Municipal Fire and Police Retirement System of Iowa (MFPRSI), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The plan provides retirement, disability and death benefits which are established by state statute to plan members and beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information. The financial report may be obtained by writing to the Municipal Fire and Police Retirement System of Iowa, 2836 104th Street, Urbandale, IA 50322.

Plan members are required to contribute 9.35% of earnable compensation. The City's contribution rate may not be less than 20.48% of earnable compensation. Contribution rates are established by state statute. The City's contribution for June 30, 2006, 2005 and 2004 were \$161,084, \$198,303 and \$121,070 respectively, equal to the required contributions for each year.

(8) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit Amount	
Vacation	\$91,743
Compensatory	<u>7,372</u>
Total	<u>\$99,115</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

(9) Health Plan

The City has established a trustee health and welfare plan known as the Charles City Public Employees Health Plan. Under terms of the plan, the trustee is authorized and empowered to hold, invest and reinvest the funds paid over by the City and to make payments and transfers to cover claim payments and administrative expenses. The First Citizens National Bank, Charles City, Iowa, is the named trustee and Employee Group Service, Ltd., Cedar Rapids, Iowa, is the administrator of the plan.

Specific and aggregate stop-loss insurance is provided by ITT Hartford Insurance Company. The City is contingently liable to the trust in the event that a trust fund deficit should arise from adverse claims expense.

(10) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road Use Tax	\$ 107,073
	Tax Increment Financing	34,818
	RUOK and FGP Advisory and Operating	3,000
	Housing Security Deposits and Public Housing	6,000
	FEMA Grant	6,620
	Debt Service	20,000
	Enterprise:	
	Water	91,220
	Sewer	89,434
	Waste Collection	<u>23,676</u>
		<u>\$ 381,841</u>
Special Revenue: CVTC Operating	Special Revenue: Road Use Tax	<u>\$ 20,879</u>
Fire and Police Retirement	Special Revenue: Tax Increment Financing	<u>\$ 176,493</u>
Cablevision	Special Revenue: Tax Increment Financing	<u>\$ 9,056</u>
Debt Service	General	\$ 6,885
	Special Revenue: Tax Increment Financing	374,849

	Road Use Tax	35,595
	Capital Projects	<u>116,196</u>
		<u>\$ 533,525</u>
Enterprise:	Enterprise:	
Sewer	Utility Improvements	<u>\$ 40,325</u>
Utility Improvements	Special Revenue:	
	2002 Winnebago PFSA	\$ 200,684
	Enterprise:	
	Water	<u>339,000</u>
		<u>\$ 539,684</u>
Transit & Fire Extinguisher	General	<u>\$ 9,852</u>
Total		<u>\$1,711,655</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(11) Related Party Transactions

The City had business transactions between the City and City officials totaling \$557 during the year ended June 30, 2006.

(12) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(13) Deficit Fund Balances

The Special Revenue Fund Police Dispatch had a deficit balance of \$8,470 at June 30, 2006. The deficit balance was a result of costs incurred prior to reimbursement by the county. The deficit will be eliminated through county payments. The Special Revenue Fund 2005 CDBG Grant had a deficit balance of \$21,580 at June 30, 2006. The deficit balance was a result of costs incurred prior to the availability of funds. The deficit will be eliminated through transfers.

(14) Floyd-Mitchell-Chickasaw Solid Waste Management Agency

The City, in conjunction with fourteen other municipalities, has created the Floyd-Mitchell-Chickasaw Solid Waste Management Agency. The Agency was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Agency will be prorated among the municipalities. The Agency is governed by a board composed of an elected representative of the governing body of each participating governmental jurisdiction.

The Agency may not be accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt, therefore, the City of Charles City may have an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2006, the City of Charles City paid Jendro's Sanitation \$248,574. The sanitation company is then responsible for paying all landfill fees for the City's share of the cost. Completed financial statements for the Agency can be obtained from the Floyd-Mitchell-Chickasaw Solid Waste Management Agency.

(15) Commitments and Contingencies

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, will be immaterial.

The City was notified by the United States Environmental Protection Agency (EPA) in March 1989, that the area known as the Shaw Avenue Dump had been determined to contain hazardous waste that has resulted in or could result in an "imminent and substantial endangerment to the public health or welfare or the environment". The EPA placed the Shaw Avenue Dump on the National Priority List (NPL) on July 22, 1987.

On December 22, 1987, the City and Solvay Animal Health, Inc. (Solvay) entered into a cost-sharing agreement whereby each pays 50% of the costs associated with complying with the consent order.

On May 26, 1989, the City and Solvay entered into a consent order with the EPA. The purpose of the consent order is to determine the nature and extent of any releases or threatened releases of pollutants or contaminants; to assess the threat, if any, to the public health and welfare; and to identify and evaluate remedial alternatives to prevent or mitigate such releases. On October 4, 1991, the EPA released a Record of Decision on the investigation of the contaminated area. Their decision was to require the City to perform a stabilization process to secure contaminants.

Subsequent to the issuance of the Record of Decision, the EPA determined that the technology to implement the stabilization process would not be adequate. On February 28, 1992, the City and Solvay entered into a Consent Decree with the EPA for remedial action, which consisted of excavation and off-site treatment by best practical means and disposal of chemical fill and contaminated soil. During the year ended June 30, 2006, the city had incurred expenditures of \$14,509, which represents 50% of the total expense shared with Solvay.

The Shaw Avenue Dump project has now been complete for several years. The EPA has approved the remedial plan. However, the City anticipates expending \$25,000 for annual maintenance and testing fees until the EPA approves the final project.

(16) Construction Commitments

As of June 30, 2006, the City had entered into construction contracts, which had remaining balances, including retainage, totaling \$1,593,721.

City of Charles City
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,288,779	\$ 35,121	\$ -
Tax increment financing collections	1,409,929	-	-
Other city tax	751,310	-	-
Licenses and permits	80,847	-	-
Use of money and property	667,531	27,115	7,003
Intergovernmental	2,578,251	8,296	-
Charges for service	459,281	2,679,196	689,483
Special assessments	3,633	-	-
Miscellaneous	418,135	10,287	8,934
Total receipts	<u>\$ 8,657,696</u>	<u>\$ 2,760,015</u>	<u>\$ 705,420</u>
Disbursements:			
Public safety	\$ 1,846,906	\$ -	\$ -
Public works	737,060	-	-
Health and social services	501,019	-	-
Culture and recreation	757,459	-	-
Community and economic development	2,181,687	-	-
General government	610,326	-	-
Debt service	692,919	-	-
Capital projects	883,349	-	-
Business type activities	-	2,182,160	-
Nonprogram	-	565,057	565,057
Total disbursements	<u>\$ 8,210,725</u>	<u>\$ 2,747,217</u>	<u>\$ 565,057</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 446,971</u>	<u>\$ 12,798</u>	<u>\$ 140,363</u>
Other financing sources, net	<u>13,794</u>	<u>107,688</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>\$ 460,765</u>	<u>\$ 120,486</u>	<u>\$ 140,363</u>
Balances beginning of year	<u>4,792,012</u>	<u>844,240</u>	<u>35,709</u>
Balances end of year	<u><u>\$ 5,252,777</u></u>	<u><u>\$ 964,726</u></u>	<u><u>\$ 176,072</u></u>

See accompanying independent auditors' report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 2,323,900	\$ 2,317,170	\$ 2,317,170	\$ 6,730
1,409,929	1,287,601	1,287,601	122,328
751,310	656,423	686,423	64,887
80,847	86,580	86,580	(5,733)
687,643	131,563	227,563	460,080
2,586,547	2,143,032	2,405,032	181,515
2,448,994	3,476,102	3,476,102	(1,027,108)
3,633	1,000	3,500	133
419,488	178,837	293,637	125,851
<u>\$ 10,712,291</u>	<u>\$ 10,278,308</u>	<u>\$ 10,783,608</u>	<u>\$ (71,317)</u>
\$ 1,846,906	\$ 1,891,287	\$ 1,947,967	\$ 101,061
737,060	708,542	733,332	(3,728)
501,019	486,297	486,297	(14,722)
757,459	765,028	777,228	19,769
2,181,687	2,036,170	2,391,004	209,317
610,326	632,898	649,985	39,659
692,919	914,440	914,440	221,521
883,349	1,603,041	1,603,041	719,692
2,182,160	2,763,239	2,763,239	581,079
-	-	-	-
<u>\$ 10,392,885</u>	<u>\$ 11,800,942</u>	<u>\$ 12,266,533</u>	<u>\$ 1,873,648</u>
\$ 319,406	\$ (1,522,634)	\$ (1,482,925)	\$ 1,802,331
121,482	1,315,000	1,315,000	(1,193,518)
\$ 440,888	\$ (207,634)	\$ (167,925)	\$ 608,813
5,600,543	4,861,406	4,861,406	739,137

City of Charles City

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$465,591 and budgeted receipts by \$505,300. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public works and health and social services functions.

City of Charles City

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2006

	Special Revenue				
	Local Option Sales Tax	Road Use Tax	2005 CDBG Housing Grant	2002 Winnebago PFSA	Police Safety Education
Receipts:					
Other city tax	\$ 517,044	\$ -	\$ -	\$ -	\$ -
Use of money and property	21,726	-	-	-	-
Intergovernmental	-	654,063	54,847	-	-
Charges for service	-	-	-	-	-
Miscellaneous	14,925	-	9,661	-	2,245
Total receipts	<u>\$ 553,695</u>	<u>\$ 654,063</u>	<u>\$ 64,508</u>	<u>\$ -</u>	<u>\$ 2,245</u>
Disbursements:					
Operating:					
Public safety	\$ -	\$ -	\$ -	\$ -	\$ 785
Public works	-	439,747	-	-	-
Health and social services	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Community and economic development	-	-	-	-	-
Capital projects	366,532	-	86,088	-	-
Total disbursements	<u>\$ 366,532</u>	<u>\$ 439,747</u>	<u>\$ 86,088</u>	<u>\$ -</u>	<u>\$ 785</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 187,163</u>	<u>\$ 214,316</u>	<u>\$ (21,580)</u>	<u>\$ -</u>	<u>\$ 1,460</u>
Other financing sources (uses):					
Operating transfers in	\$ -	\$ -	\$ -	\$ -	\$ -
Operating transfers out	-	(163,547)	-	(200,684)	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ (163,547)</u>	<u>\$ -</u>	<u>\$ (200,684)</u>	<u>\$ -</u>
Net change in cash balances	\$ 187,163	\$ 50,769	\$ (21,580)	\$ (200,684)	\$ 1,460
Cash balances beginning of year	417,349	418,247	-	200,684	2,036
Cash balances end of year	<u>\$ 604,512</u>	<u>\$ 469,016</u>	<u>\$ (21,580)</u>	<u>\$ -</u>	<u>\$ 3,496</u>
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	\$ 604,512	\$ 469,016	\$ (21,580)	\$ -	\$ 3,496
Permanent fund	-	-	-	-	-
Total cash basis fund balances	<u>\$ 604,512</u>	<u>\$ 469,016</u>	<u>\$ (21,580)</u>	<u>\$ -</u>	<u>\$ 3,496</u>

See accompanying independent auditors' report.

STEP Grant	FEMA Grant	CVTC Operating	Fire and Police Retirement	RUOK and FGP Advisory & Operating	Section 8 Voucher	CHSP North & South
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	4,316	-	-	2,928	-
6,780	2,755	55,550	-	309,533	515,967	-
-	-	-	-	-	76,173	1,567
-	-	2,539	-	201,926	-	-
<u>\$ 6,780</u>	<u>\$ 2,755</u>	<u>\$ 62,405</u>	<u>\$ -</u>	<u>\$ 511,459</u>	<u>\$ 595,068</u>	<u>\$ 1,567</u>
\$ 2,382	\$ -	\$ -	\$ 222,731	\$ 462	\$ -	\$ -
-	-	84,535	-	-	-	-
-	-	-	-	501,019	-	-
-	-	-	-	-	-	-
-	8,394	-	-	-	552,404	40,075
-	-	-	-	-	-	-
<u>\$ 2,382</u>	<u>\$ 8,394</u>	<u>\$ 84,535</u>	<u>\$ 222,731</u>	<u>\$ 501,481</u>	<u>\$ 552,404</u>	<u>\$ 40,075</u>
<u>\$ 4,398</u>	<u>\$ (5,639)</u>	<u>\$ (22,130)</u>	<u>\$ (222,731)</u>	<u>\$ 9,978</u>	<u>\$ 42,664</u>	<u>\$ (38,508)</u>
\$ -	\$ -	\$ 20,879	\$ 176,493	\$ -	\$ -	\$ -
-	(6,620)	-	-	(3,000)	-	-
<u>\$ -</u>	<u>\$ (6,620)</u>	<u>\$ 20,879</u>	<u>\$ 176,493</u>	<u>\$ (3,000)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 4,398	\$ (12,259)	\$ (1,251)	\$ (46,238)	\$ 6,978	\$ 42,664	\$ (38,508)
2,961	12,259	91,306	303,238	48,192	68,417	38,508
<u>\$ 7,359</u>	<u>\$ -</u>	<u>\$ 90,055</u>	<u>\$ 257,000</u>	<u>\$ 55,170</u>	<u>\$ 111,081</u>	<u>\$ -</u>
\$ 7,359	\$ -	\$ 90,055	\$ 257,000	\$ 55,170	\$ 111,081	\$ -
-	-	-	-	-	-	-
<u>\$ 7,359</u>	<u>\$ -</u>	<u>\$ 90,055</u>	<u>\$ 257,000</u>	<u>\$ 55,170</u>	<u>\$ 111,081</u>	<u>\$ -</u>

Schedule 1

Special Revenue (Cont.)						Permanent	
2003, 2004 & 2005 Capital Fund	EDSA-CDI Paint Facility	Police Dispatch	Law Enforcement Grant	Non- Permanent Library Funds	Cablevision	Permanent Library Funds	Totals
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 517,044
-	-	-	-	29,644	-	3,404	62,018
406,865	-	241,069	250	-	-	-	2,247,679
-	-	7,700	-	-	78,366	-	163,806
-	33,000	3,988	-	6,507	-	-	274,791
<u>\$ 406,865</u>	<u>\$ 33,000</u>	<u>\$ 252,757</u>	<u>\$ 250</u>	<u>\$ 36,151</u>	<u>\$ 78,366</u>	<u>\$ 3,404</u>	<u>\$ 3,265,338</u>
\$ -	\$ -	\$ 258,107	\$ -	\$ -	\$ -	\$ -	\$ 484,467
-	-	-	-	-	-	-	524,282
-	-	-	-	-	-	-	501,019
-	-	-	-	31,311	-	4,882	36,193
406,865	-	-	-	-	86,605	-	1,094,343
-	183,000	-	-	-	-	-	635,620
<u>\$ 406,865</u>	<u>\$ 183,000</u>	<u>\$ 258,107</u>	<u>\$ -</u>	<u>\$ 31,311</u>	<u>\$ 86,605</u>	<u>\$ 4,882</u>	<u>\$ 3,275,924</u>
<u>\$ -</u>	<u>\$ (150,000)</u>	<u>\$ (5,350)</u>	<u>\$ 250</u>	<u>\$ 4,840</u>	<u>\$ (8,239)</u>	<u>\$ (1,478)</u>	<u>\$ (10,586)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,056	\$ -	\$ 206,428
-	-	-	-	-	-	-	(373,851)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,056</u>	<u>\$ -</u>	<u>\$ (167,423)</u>
\$ -	\$ (150,000)	\$ (5,350)	\$ 250	\$ 4,840	\$ 817	\$ (1,478)	\$ (178,009)
-	150,000	(3,120)	-	116,724	88,574	18,960	1,974,335
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,470)</u>	<u>\$ 250</u>	<u>\$ 121,564</u>	<u>\$ 89,391</u>	<u>\$ 17,482</u>	<u>\$ 1,796,326</u>
\$ -	\$ -	\$ (8,470)	\$ 250	\$ 121,564	\$ 89,391	\$ -	\$ 1,778,844
-	-	-	-	-	-	17,482	17,482
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,470)</u>	<u>\$ 250</u>	<u>\$ 121,564</u>	<u>\$ 89,391</u>	<u>\$ 17,482</u>	<u>\$ 1,796,326</u>

City of Charles City
Schedule of Indebtedness
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Essentially Corporate Purpose	09/01/99	4.30-5.20%	\$ 1,550,000
Water Utility	09/01/00	4.70-5.50%	1,180,000
Corporate Purpose	04/01/02	2.50-5.20%	1,410,000
Corporate Purpose	02/13/03	1.40-4.20%	980,000
Corporate Purpose	02/18/03	2.00-4.50%	139,000
Refunding	07/01/03	1.35-3.25%	1,235,000
Refunding	09/01/04	3.50-4.00%	1,340,000
Refunding	06/01/05	3.10-3.75%	1,620,000
Total			
General obligation notes:			
Corporate Purpose	06/29/01	6.47%	\$ 40,000
Corporate Purpose	05/29/03	4.00%	260,000
Refunding	06/01/04	1.50-3.22%	359,000
Total			
Revenue bonds:			
Urban Renewal	02/13/03	1.75-4.75%	\$ 585,000
Water Utility	03/13/03	2.00-4.90%	1,400,000
Sewer Utility	07/01/03	3.00%	3,000,000
Urban Renewal	12/23/03	4.00%	136,000
Water 2004B	07/08/04	2.50-5.00%	320,000
Tax Increment Financing	01/10/05	4.50%	255,000
Water Pollution Control	01/10/05	3.50%	110,000
Total			
Revenue notes:			
Road Use Tax	06/24/99	4.30-5.50%	\$ 520,000
Urban Renewal	10/20/03	2.00%	95,684
Water	08/01/04	3.50%	36,000
Total			
Interfund loan agreements:			
Police Retirement	12/07/98	7.00%	76,617
Fire Retirement	08/22/00	7.00%	36,043

See accompanying independent auditors' report.

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 560,000	\$ -	\$ 75,000	\$ 485,000	\$ 37,803	\$ -
690,000	-	-	690,000	49,157	-
875,000	-	-	875,000	56,135	-
890,000	-	55,000	835,000	31,640	-
116,000	-	13,000	103,000	4,354	-
1,090,000	-	145,000	945,000	28,363	-
1,340,000	-	65,000	1,275,000	50,870	-
1,620,000	-	-	1,620,000	55,955	-
<u>\$ 7,181,000</u>	<u>\$ -</u>	<u>\$ 353,000</u>	<u>\$ 6,828,000</u>	<u>\$ 314,277</u>	<u>\$ -</u>
\$ 13,482	\$ -	\$ 8,750	\$ 4,732	\$ 746	\$ -
220,000	-	20,000	200,000	8,800	-
289,000	-	67,000	222,000	7,703	-
<u>\$ 522,482</u>	<u>\$ -</u>	<u>\$ 95,750</u>	<u>\$ 426,732</u>	<u>\$ 17,249</u>	<u>\$ -</u>
\$ 535,000	\$ -	\$ 30,000	\$ 505,000	\$ 21,850	\$ -
1,315,000	-	50,000	1,265,000	55,325	-
2,888,000	-	115,000	2,773,000	83,395	-
136,000	-	-	136,000	5,440	-
305,000	-	15,000	290,000	13,113	-
255,000	-	-	255,000	11,475	-
105,000	-	10,000	95,000	3,585	-
<u>\$ 5,539,000</u>	<u>\$ -</u>	<u>\$ 220,000</u>	<u>\$ 5,319,000</u>	<u>\$ 194,183</u>	<u>\$ -</u>
\$ 480,000	\$ -	\$ 10,000	\$ 470,000	\$ 25,595	\$ -
95,684	-	95,684	-	1,112	-
36,000	-	4,000	32,000	1,225	-
<u>\$ 611,684</u>	<u>\$ -</u>	<u>\$ 109,684</u>	<u>\$ 502,000</u>	<u>\$ 27,932</u>	<u>\$ -</u>
54,466	-	8,187	46,279	3,813	-
12,150	-	5,864	6,286	664	-
45,903	-	14,802	31,101	3,219	-
61,648	-	30,824	30,824	-	-
34,035	-	9,056	24,979	-	-
44,872	-	9,056	35,816	-	-
<u>\$ 253,074</u>	<u>\$ -</u>	<u>\$ 77,789</u>	<u>\$ 175,285</u>	<u>\$ 7,696</u>	<u>\$ -</u>

City of Charles City
Bond and Note Maturities

June 30, 2006

General Obligation Bonds								
Year	Corporate Purpose		Water Utility		Corporate Purpose		Corporate Purpose	
	Issued Sept 1, 1999		Issued Sept 1, 2000		Issued April 1, 2002		Issued Feb 13, 2003	
Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2007	4.75%	\$ 80,000		\$ -		\$ -	2.20%	\$ 55,000
2008	4.85%	80,000		-		-	2.85%	60,000
2009	4.95%	90,000		-		-	2.85%	60,000
2010	5.00%	85,000	5.15%	65,000	4.40%	90,000	3.40%	60,000
2011	5.05%	35,000	5.20%	70,000	4.50%	95,000	3.40%	65,000
2012	5.10%	35,000	5.25%	75,000	4.70%	100,000	3.75%	70,000
2013	5.15%	40,000	5.30%	80,000	4.80%	110,000	3.75%	70,000
2014	5.20%	40,000	5.35%	80,000	4.90%	110,000	4.00%	70,000
2015	-	-	5.40%	155,000	5.00%	115,000	4.00%	75,000
2016	-	-	5.50%	165,000	5.10%	125,000	4.20%	80,000
2017	-	-	-	-	5.20%	130,000	4.20%	80,000
2018	-	-	-	-	-	-	4.20%	90,000
Total		\$ 485,000		\$ 690,000		\$ 875,000		\$ 835,000

General Obligation Notes							
Year Ending June 30,	Corporate Purpose Issued June 29, 2001		Corporate Purpose Issued May 29, 2003		Refunding Issued June 1, 2004		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2007	6.47%	\$ 4,732	4.00%	\$ 20,000	2.50%	\$ 71,000	\$ 95,732
2008	-	-	4.00%	20,000	2.85%	74,000	94,000
2009	-	-	4.00%	20,000	3.22%	77,000	97,000
2010	-	-	4.00%	20,000	-	-	20,000
2011	-	-	4.00%	20,000	-	-	20,000
2012	-	-	4.00%	20,000	-	-	20,000
2013	-	-	4.00%	20,000	-	-	20,000
2014	-	-	4.00%	20,000	-	-	20,000
2015	-	-	4.00%	20,000	-	-	20,000
2016	-	-	4.00%	20,000	-	-	20,000
Total		<u>\$ 4,732</u>		<u>\$ 200,000</u>		<u>\$ 222,000</u>	<u>\$ 426,732</u>

Revenue Bonds									
Year Ending June 30,	Urban Renewal Issued Feb 13, 2003		Water Utility Issued March 13, 2003		Sewer Utility Issued July 1, 2003		Urban Renewal Issued Dec 23, 2003		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2007	2.75%	\$ 35,000	3.00%	\$ 50,000	3.00%	\$ 118,000	4.00%	\$ 7,400	
2008	3.40%	35,000	3.00%	55,000	3.00%	122,000	4.00%	7,700	
2009	3.40%	35,000	3.50%	55,000	3.00%	126,000	4.00%	8,100	

See accompanying independent auditors' report.

Schedule 3

General Obligation Bonds Continued								
Corporate Purpose		Refunding		Refunding		Refunding		Total
Issued Feb 18, 2003		Issued July 1, 2003		Issued Sept 1, 2004		Issued Sept 1, 2004		
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
3.00%	\$ 13,000	2.10%	\$ 145,000	4.00%	\$ 65,000	-	-	\$ 358,000
3.25%	14,000	2.40%	155,000	4.00%	70,000	-	-	379,000
3.50%	14,000	2.60%	155,000	4.00%	90,000	-	-	409,000
4.00%	15,000	2.80%	160,000	4.00%	95,000	3.10%	170,000	740,000
4.25%	15,000	3.10%	165,000	4.00%	115,000	3.20%	175,000	735,000
4.40%	16,000	3.25%	165,000	3.50%	120,000	3.30%	185,000	766,000
4.50%	16,000	-	-	3.60%	220,000	3.40%	200,000	736,000
-	-	-	-	3.70%	250,000	3.50%	200,000	750,000
-	-	-	-	3.80%	250,000	3.60%	270,000	865,000
-	-	-	-	-	-	3.65%	290,000	660,000
-	-	-	-	-	-	3.75%	130,000	340,000
-	-	-	-	-	-	-	-	90,000
<u>\$ 103,000</u>		<u>\$ 945,000</u>		<u>\$ 1,275,000</u>		<u>\$ 1,620,000</u>		<u>\$ 6,828,000</u>
Revenue Notes								
Road Use Tax		Urban Renewal Anticipation Note		Water				
Issued June 24, 1999		Issued Oct 20, 2003		Issued Aug 1, 2004				
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total		
3.00%	\$ 25,000		\$ -	3.50%	\$ 4,000	\$ 29,000		
3.00%	35,000		-	3.50%	4,000	39,000		
3.00%	50,000		-	3.50%	4,000	54,000		
3.00%	55,000		-	3.50%	4,000	59,000		
3.00%	70,000		-	3.50%	4,000	74,000		
3.00%	75,000		-	3.50%	4,000	79,000		
3.00%	80,000		-	3.50%	4,000	84,000		
3.00%	80,000		-	3.50%	4,000	84,000		
<u>\$ 470,000</u>		<u>\$ -</u>		<u>\$ 32,000</u>		<u>\$ 502,000</u>		
Revenue Bonds Continued								
Water 2004B		Tax Increment Financing		Water Pollution Control				
Issued July 8, 2004		Issued Jan 10, 2005		Issued Jan 10, 2005				
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total		
2.50%	\$ 15,000		\$ -	3.50%	\$ 10,000	\$ 235,400		
3.50%	20,000		-	3.50%	10,000	249,700		
3.50%	20,000	4.50%	6,000	3.50%	12,000	262,100		
3.50%	20,000	4.50%	12,000	3.50%	12,000	276,300		
4.50%	20,000	4.50%	12,000	3.50%	12,000	285,700		
4.50%	20,000	4.50%	14,000	3.50%	12,000	297,100		
4.50%	20,000	4.50%	15,000	3.50%	13,000	303,400		
4.75%	25,000	4.50%	16,000	3.50%	14,000	325,700		
4.75%	25,000	4.50%	18,000	-	-	318,100		
4.75%	25,000	4.50%	18,000	-	-	333,500		
5.00%	25,000	4.50%	20,000	-	-	345,100		
5.00%	25,000	4.50%	22,000	-	-	362,500		
5.00%	30,000	4.50%	23,000	-	-	318,900		
-	-	4.50%	25,000	-	-	301,500		
-	-	4.50%	26,000	-	-	300,000		
-	-	4.50%	28,000	-	-	313,000		
-	-	-	-	-	-	295,000		
-	-	-	-	-	-	196,000		
<u>\$ 290,000</u>		<u>\$ 255,000</u>		<u>\$ 95,000</u>		<u>\$ 5,319,000</u>		

City of Charles City

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Four Fiscal Years

	2006	2005	2004	2003
Receipts:				
Property tax	\$ 2,288,779	\$ 2,010,746	\$ 1,957,012	\$ 2,130,014
Tax increment financing collections	1,409,929	1,278,706	1,041,109	890,431
Other city tax	751,310	741,546	683,241	549,348
Licenses and permits	80,847	98,716	83,065	72,511
Use of money and property	667,531	545,075	504,074	494,507
Intergovernmental	2,578,251	4,107,983	3,544,646	4,873,982
Charges for service	459,281	468,856	191,815	324,974
Special assessments	3,633	1,623	2,537	1,207
Miscellaneous	418,135	595,563	779,523	716,221
Total	<u>\$ 8,657,696</u>	<u>\$ 9,848,814</u>	<u>\$ 8,787,022</u>	<u>\$ 10,053,195</u>
Disbursements:				
Operating:				
Public safety	\$ 1,846,906	\$ 1,799,353	\$ 1,365,921	\$ 1,449,034
Public works	737,060	423,513	643,890	772,068
Health and social services	501,019	472,537	464,085	452,611
Culture and recreation	757,459	598,711	693,883	717,289
Community and economic development	2,181,687	2,329,510	2,877,316	3,243,570
General government	610,326	665,739	735,954	726,357
Debt service	692,919	1,638,919	1,429,633	1,678,740
Capital projects	883,349	3,599,929	3,120,287	2,864,021
Total	<u>\$ 8,210,725</u>	<u>\$ 11,528,211</u>	<u>\$ 11,330,969</u>	<u>\$ 11,903,690</u>

See accompanying independent auditors' report.

City of Charles City

Schedule of Expenditures of Federal Awards

June 30, 2006

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Housing and Urban Development:			
Section 8 Housing Choice Vouchers	14.871	KC-9079V	\$ 591,840
Public Housing Capital Fund:			
Fiscal Year 2003	14.872	IA05POO250102	35,711
Fiscal Year 2003	14.872	IA05POO250202	33,786
Fiscal Year 2004	14.872	IA05POO250103	163,138
Fiscal Year 2005	14.872	IA05POO250104	174,230
Public and Indian Housing	14.850	IA00200104J	480,450
Total			<u>\$ 1,479,155</u>
U.S. Department of Transportation:			
Airport Improvement Program	20.106	3-19-0015-04-2004	<u>\$ 59,655</u>
Federal Emergency Management Agency:			
Assistance to Firefighters	83.544	EMW-2003-FG-03728	<u>\$ 5,442</u>
Corporation for National and Community Service:			
Foster Grandparent Program	94.011	01SFNA003	<u>\$ 299,957</u>
Total Direct			<u>\$ 1,844,209</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Community Development Block Grants/State's Program:			
2003 Winnebago PFSA	14.228	02-PF-002	<u>\$ 49,447</u>
U.S. Department of Transportation:			
Governor's Traffic Safety Bureau:			
State Incentive Grants for Use of Seat Belts	20.604	04-157 Task 25	<u>\$ 6,780</u>
Total Indirect			<u>\$ 56,227</u>
Total expenditures of federal awards			<u>\$ 1,900,436</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditors' report.



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Independent Auditors' Report on Internal Control
over Financial Reporting and on Compliance and other matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Charles City, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 24, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Charles City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Charles City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Charles City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Charles City and other parties to whom the City of Charles City may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Charles City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Lines Murphy & Company, P. L. C.
Certified Public Accountants
Charles City, Iowa
October 24, 2006



LINES MURPHY & COMPANY, P.L.C.

Certified Public Accountants

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Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Charles City, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2006. The City of Charles City's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the City of Charles City's management. Our responsibility is to express an opinion on the City of Charles City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Charles City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Charles City's compliance with those requirements.

In our opinion, the City of Charles City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed an instance of non-compliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The management of the City of Charles City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Charles City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

No reportable conditions in internal control over the major programs were reported. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Charles City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe no items are material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Charles City and other parties to whom the City of Charles City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Lines Murphy & Company, P. L. C.
Certified Public Accountants
Charles City, Iowa
October 24, 2006

City of Charles City
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) The audit did not disclose any reportable conditions in internal control over the major programs.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The programs tested as major were as follows:
 - CFDA Number 14.871 – Section 8 Housing Choice Vouchers
 - CFDA Number 14.850 – Public Housing
 - CFDA Number 94.011 – Foster Grandparent
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Charles City did not qualify as a low-risk auditee.

City of Charles City
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing and bank deposits are done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Charles City
Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

CFDA Number 20.106: Airport Improvement Program
Pass-through Agency Number: 3-19-0015-04-2004
Federal Award Year: 2004
Department of Transportation
Passed through the Iowa Department of Transportation

III-A-06 Record of reports filed with FAA – Supporting documentation was not available to verify the 2005 reports were filed with the FAA as required.

Recommendation – The City should implement procedures to ensure supporting documentation is retained.

Response – We will retain documentation of required reports.

Conclusion – Response accepted.

REPORTABLE CONDITION:

No matters were reported.

City of Charles City
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part IV: Other Findings Related to Statutory Reporting:

IV-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public works and health and social services functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

IV-B-06 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted. However, both sides of checks or images were not available.

Recommendation – The City should request both sides of checks or images from their financial institution.

Response – We will request both sides of checks or images from our financial institution.

Conclusion – Response accepted.

IV-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-06 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jerry Joerger, Council Member, Owner of Yeg's Sports	Miscellaneous supplies	\$ 557

In accordance with Chapter 362.5(10) of the Code of Iowa, the amount does not appear to represent a conflict of interest. The amount is less than \$1,500 and bids were not required.

City of Charles City
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

- IV-E-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-06 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-G-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- IV-H-06 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.
- IV-I-06 Financial Condition – The Special Revenue Funds, 1998 Police Dispatch Account and CDBG Grant Account had deficit balances at June 30, 2006 of \$8,470 and \$21,580, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – The City will investigate alternatives.

Conclusion – Response accepted.

City of Charles City

Required Supplementary Information

Other Supplementary Information

City of Charles City
Corrective Action Plan for Federal Audit Findings
Year ended June 30, 2006

Comment Number	Comment Title	Corrective Action Plan	Contact Person, Title, Phone Number	Anticipated Date of Completion
III-A-06	Supporting Documentation Unavailable to Verify Timely Filing of Federal Reports	The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Tracy Meise, Program Director, (641) 257-6300	Documentation to support timely filing of federal reports filed with the FAA will be maintained effective immediately.

City of Charles City
Summary Schedule of Prior Federal Audit Findings
Year ended June 30, 2006

Comment Reference	Comment Title	Status	If not corrected, provide planned corrective action or other explanation
III-A-05	Supporting Documentation unavailable to verify timely filing of Federal Reports.	Corrective action taken.	Contract already completed. Program director has implemented procedures to ensure supporting documentation is maintained.

Basic Financial Statements

Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133